

# **Sprott Resource Holdings Inc. 2019 First Quarter Report**

## **Management's Discussion and Analysis of Financial Position and Results of Operations**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("**MD&A**") of the performance, financial condition and future prospects of Sprott Resource Holdings Inc. ("**SRHI**" or the "**Company**"). This document is prepared as at May 7, 2019 (unless otherwise stated) and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three months ended March 31, 2019, including the notes thereon (the "**Financial Statements**"). The Company prepares its Financial Statements in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). The Company's significant accounting policies are set out in Note 2 of the audited consolidated financial statements for the year ended December 31, 2018. All amounts are expressed in United States dollars ("**USD**") unless otherwise indicated. Additional information on the Company and its operations, including a consolidated National Instrument 43-101 Standards of Disclosure for Mineral Projects ("**NI 43-101**") compliant technical report (the "**Technical Report**"), can be accessed at [www.sedar.com](http://www.sedar.com), and may also be found on the Company's website at [www.sprottresource.com](http://www.sprottresource.com).

Forward-looking statements and information are used throughout this document. See the Forward-Looking Information section at the end of this document highlighting the caution that a reader should place on all forward-looking information.

## BUSINESS OVERVIEW

SRHI acquires and grows a portfolio of cash-flowing businesses and businesses expected to cash flow in the natural resource sector. Based in Toronto, Ontario, Canada, SRHI is part of the Sprott Group of Companies (Sprott Inc. ("**Sprott**") and its subsidiaries and affiliates) and seeks to deploy capital to provide our investors with exposure to attractive commodities.

SRHI is managed by a team of resource professionals and its businesses and portfolio investments are concentrated in the mining and energy sectors. The Company controls two businesses ("**Strategic Assets**"), one of which is held for sale, and an investment portfolio of minority positions ("**Tactical Assets**"). The Company's portfolio investments are non-controlling positions in commodities or companies that SRHI believes will provide positive returns. SRHI is committed to being a high-value partner to the management teams it backs and the co-investors who invest alongside SRHI.

SRHI completed its transition into a diversified resource holding company on February 1, 2018 (the "**Transition Date**"). On August 13, 2018, the Company completed a share consolidation (the "**Share Consolidation**") as approved by shareholders of its share capital on the basis of twenty (20) existing common shares for one (1) new common share. As a result of the Share Consolidation, the 681,680,846 common shares issued and outstanding as at that date were consolidated to 34,082,992 common shares. The listed common share purchase warrants were not consolidated and 20 common share purchase warrants are exercised at a price of CAD\$6.66 to purchase 1 common share. All information in this MD&A is presented on a post-Share Consolidation basis.

|   | Business Description  | Private/<br>Public | Proportion of<br>Ownership<br>Interest |
|---|---|--------------------|--|
| <i>Strategic Assets</i>                                     |   |                    |  |
| Minera Tres Valles SpA (" <b>MTV</b> ")                     | Copper mining and cathode production                        | Private            | 70.0%                                  |
| Beretta Farms Inc. (" <b>Beretta</b> ")                     | Organic protein production and retail                       | Private            | 49.98%                                 |
| <i>Tactical Assets</i>                                      |   |                    |  |
| Corsa Coal Corp. (" <b>Corsa Coal</b> ")                    | Production and sales of metallurgical coal                  | Public             | 17.1%                                  |
| InPlay Oil Corp. (" <b>InPlay Oil</b> ")                    | Exploration, development and production of light oil assets | Public             | 10.5%                                  |
| Virginia Energy Resources Inc. (" <b>Virginia Energy</b> ") | Development of uranium asset                                | Public             | 16.5%                                  |
| Lac Otelnuk Mining Ltd. (" <b>Lac Otelnuk</b> ")            | Development of iron ore asset                               | Private            | 40.0%                                  |

The Company's current principal Strategic Asset is its 70% equity interest in MTV, a producing copper mine that was acquired in October 2017. MTV's main asset is the Minera Tres Valles mining complex, located in the Province of Choapa, Chile which includes a fully integrated processing operation and four active mines. Ore is extracted primarily from the Don Gabriel open pit mine ("**Don Gabriel**") and the Papomono underground

mine ("**Papomono**"), both of which are located approximately 10 kilometers north of the town of Salamanca, Chile. MTV's objective is to carry out mining activities associated with exploiting and processing minerals for which it has a crushing and processing plant with nameplate capacity of 7,000 and 6,000 tonnes per day, respectively. MTV's heap leach pads and solvent-extraction and electrowinning processing ("**SX-EW**") plant (production capacity of 18,500 tonnes per year of copper cathodes) are located approximately 7 kilometers north of Salamanca. The first shipment of copper cathodes from MTV took place in January 2011. The Company has consolidated MTV from the Transition Date and the results of the Company include the results of MTV since the Transition Date.

## HIGHLIGHTS

The Company reported as an Investment Entity under IFRS 10: *Consolidated Financial Statements* ("**Investment Entity Reporting**") for the month ended January 31, 2018. As at February 1, 2018, the Company no longer reported as an Investment Entity and instead consolidated the accounts of MTV and Beretta. Accordingly, in some cases, comparative financial and operating information will only include the results for the months of February and March 2018.

The following operating and financial highlights are for the three months ended March 31, 2019 and two months ended March 31, 2018.

| <i>Financial information (in thousands)</i>                                    | <b>Three months ended</b> |                      |
|--|---------------------------|----------------------|
|  | <b>Mar. 31, 2019</b>      | <b>Mar. 31, 2018</b> |
| Revenue <sup>1</sup>   | \$ 8,608                  | \$ 5,963             |
| Gross profit (loss) <sup>1</sup>   | \$ (1,560)                | \$ 254               |
| Net loss from continuing operations  | \$ (2,622)                | \$ (7,971)           |
| Net loss from discontinued operations <sup>1</sup>                             | \$ (1,517)                | \$ (736)             |
| Net loss for the period  | \$ (4,139)                | \$ (8,707)           |
| Adjusted EBITDA from continuing operations <sup>2</sup>                        | \$ (1,959)                | \$ (1,040)           |
| Unrealized gain (loss) on portfolio investments                                | \$ 1,662                  | \$ (6,392)           |
| Cash provided by (used in) operating activities before working capital changes | \$ (1,893)                | \$ 340               |

<sup>1</sup> Comparative figures are for the period from February 1, 2018 to March 31, 2018

<sup>2</sup> Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization and further adjusted to remove the Company's unrealized gain (loss) on portfolio investments. It is a non-IFRS performance measure. Refer to Non-IFRS Performance Measure section of the MD&A for discussion.

| <i>(in thousands)</i>                              | <b>As at</b>         |                      |
|--|----------------------|----------------------|
|  | <b>Mar. 31, 2019</b> | <b>Dec. 31, 2018</b> |
| Cash and cash equivalents                          | \$ 10,225            | \$ 13,500            |
| Working capital <sup>1</sup>                       | \$ 16,041            | \$ 19,479            |
| Portfolio investments                              | \$ 21,545            | \$ 19,485            |
| Total equity attributable to owners of the Company | \$ 83,922            | \$ 85,549            |
| Non-controlling interest                           | \$ 20,148            | \$ 21,582            |

<sup>1</sup> Working capital is a non-IFRS performance measure. Refer to Non-IFRS Performance Measure section of the MD&A for discussion.

The following operating metrics are specific to MTV's operations.

| <i>Operating information</i>                              | <b>Three months ended</b> | <b>Two months ended</b> |
|---|---------------------------|-------------------------|
|   | <b>Mar. 31, 2019</b>      | <b>Mar. 31, 2018</b>    |
| <b>Copper (MTV Operations)</b>                            |                           |                         |
| Total ore mined (thousands of tonnes)                     | <b>264</b>                | 90                      |
| Total waste mined (thousands of tonnes)                   | <b>1,499</b>              | 90                      |
| Ore Processed (thousands of tonnes)                       | <b>311</b>                | 139                     |
| Grade (% Cu)  | <b>0.61%</b>              | 0.91%                   |
| Cu Production (tonnes)                                    | <b>1,793</b>              | 922                     |
| Cu Production (thousands of pounds)                       | <b>3,953</b>              | 2,033                   |
| Cash cost of copper produced <sup>1</sup> (USD per pound) | <b>\$ 2.27</b>            | \$ 2.43                 |
| Realized copper price (USD per pound)                     | <b>\$ 2.81</b>            | \$ 3.14                 |

<sup>1</sup> Cash cost per pound of copper produced includes all costs absorbed into inventory less non-cash items such as depreciation and non-site charges. It is a non-IFRS financial measure. Refer to Non-IFRS Performance Measure section of the MD&A for discussion.

### Key Corporate and Growth Initiatives

On November 2, 2018, the Company announced the results of a NI 43-101 technical report (the "**Technical Report**") by Wood plc detailing the basis for the Company's expansion plans of MTV.

Total material crushed in the first quarter increased to 311 thousand tonnes as a result of increased open pit operations, primarily from Don Gabriel, Cumbre and the newly opened Rajo Norte mine. This compares to 139 thousand tonnes in the prior year's two-month period.

Don Gabriel is the largest contributor of ore to MTV and the unit costs have decreased approximately 50% from early 2018, reducing the cutoff grade and increasing copper production. The Rajo Norte and Cumbre open pit mines are two of the ancillary deposits that contribute to copper production as shown in the PEA case of the Technical Report and demonstrates the flexibility in MTV's operations.

Ore production from the Papomono mine remained stable, extracting ore from resource blocks adjacent to the Papomono Massive deposit in advance of future block caving efforts. A large component of ore production growth in 2020 will come from the higher-grade Papomono Massive deposit. MTV plans to extract ore using the incline block caving method, which is expected to reduce unit-mining costs from current levels by approximately 50%. The Company and MTV have spent considerable time investigating and analyzing caving methods as part of trade-off analysis, using well-known global experts in caving.

Following our pre-feasibility level estimates in the Technical Report, detailed engineering is underway, and MTV is selecting the underground development contractor. Final approval for the required permits is expected in the third quarter of 2019 and once long-term financing is in place, MTV will start the development of access levels and draw points. Initial development is expected to take 10 months, prior to commencement of extraction. Over time, production from Papomono Massive is expected to ramp up to 2,000 tonnes per day, compared to the current production levels of 500 tonnes per day.

Mineralized material supplied by ENAMI and local miners increased in concert with higher copper prices. The processing of non-MTV mineralized material has good margins, utilizes excess capacity, requires no capital spend and benefits local community members.

The implementation of chloride leaching ("**Salt Leach**") at MTV involves adding rock salt (NaCl) in the agglomeration stage of the crushing plant and allowing the mixed sulphide and oxide material to rest on the heap 30 days before application of sulphuric acid. The oxidation of sulphide material in the heaps is expected to improve copper recoveries by 8%, reduce acid consumption, and decrease the leach time by 40%. These changes are expected to reduce cash costs and improve MTV's working capital. MTV is expected to commence adding salt in the third quarter while adding lined pumps to resist corrosion in the key equipment. The lined pumps are temporary and will be replaced by titanium pumps and valves that were subject to manufacturing delays subsequent to when the order was placed. Construction of additional cleaning tanks for the Salt Leach is on track and approximately 50% of the actual and committed expenditures for the Salt Leach remain. Despite the additional cost of the lined pumps, we expect the total cost of the Salt Leach project to be in line with the original pre-feasibility Technical Report estimate of \$7.1 million.

## Cash Position

Cash and cash equivalents decreased to \$10.2 million at March 31, 2019 from \$13.5 million at December 31, 2018 as the Company continues to support the operations at MTV that have resulted in an inventory build of \$4.1 million and capital expenditures of \$2.3 million in the quarter. The outstanding balance on MTV's \$15 million capacity revolving credit facility remained at \$14.3 million at March 31, 2019.

SRHI and MTV continue to advance discussions to secure long-term debt and offtake financing to fund the growth initiatives.

## Capital Expenditures

Capital expenditures for the three months ended March 31, 2019 were primarily pre-stripping waste rock at Don Gabriel in preparation of its new mining phases.

## Investment Portfolio Divestment

The Company continues to work on divestment strategies for the non-core assets. No dispositions have been made to date but management expects that some, if not all, of the non-core investments or businesses will be divested during the remainder of 2019.

## MTV operating performance for the three months ended March 31, 2019

- Mined a total of 229,563 tonnes of ore at a grade of 0.54% copper from open pit operations
- Mined a total of 34,429 tonnes of ore at a grade of 1.11% copper from Papomono
- Produced 4.0 million pounds of 99.99% pure copper cathodes
- Revenue of \$8.6 million generated from (i) the sale of copper cathodes and (ii) tolling charges for mineralized material supplied by ENAMI
- Gross loss for the period was \$1.6 million
- Cash cost per pound of copper produced for the period (see Non-IFRS Performance Measures) was \$2.27 which is at the low end of 2019 guidance
- Realized price per pound of copper sold was \$2.81 compared to \$2.78 for the three months ended December 31, 2018
- Inventory build was \$4.1 million for the period
- Total capital expenditures of \$2.3 million focused on development costs, capitalized stripping costs and purchases of equipment
- Total exploration and evaluation expenditures for the period totaled \$0.4 million for engineering and drilling

## Company financial performance for the three months ended March 31, 2019

- Cash and cash equivalents of \$10.2 million included in working capital of \$16.0 million
- Net loss for the quarter was \$4.1 million or \$0.12 per share
- Adjusted EBITDA (see Non-IFRS Measures) from continuing operations for the quarter was negative \$2.0 million which excludes an unrealized gain on portfolio investments of \$1.7 million

## OUTLOOK

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### Outlook

The expansion of Don Gabriel began in the second half of 2018 with the selected mining and haulage contractors arriving on site during August 2018. This expansion has progressed well with \$1.9 million of capital expenditures incurred in 2018 for pre-stripping of phases 2, 3 and 5 (7 mining phases in total) and a further \$1.6 million of expenditures incurred in the first quarter of 2019. A total of \$5.9 million was defined for pre-stripping mining which is expected to be fully utilized by the end of 2019.

An EPC contractor was hired in mid-2018 and long lead-time items for the Salt Leach project were ordered in 2018 following the recommendations outlined in a Preliminary Feasibility Study filed in March 2018. Capital expenditures of approximately \$7.1 million were defined over a ten-month period and it is expected that the Salt Leach will be fully implemented and operational by the beginning of the third quarter, ahead of schedule. The Technical Report, which includes the Papomono Massive and ancillary deposits, provides for \$21 million in capital expenditures over 18 months which began in the first quarter of 2019. MTV and SRHI are working with providers for debt financing of the project and believe that debt financing could be in place early in the third quarter to fund this expansion.

Upon MTV completing the aforementioned capital projects, cash flows generated from this expansion will provide MTV the ability to exploit the exploration upside of its significant land package of over 44,334 hectares of mineral rights and more than 100 copper occurrences identified that require more exploration effort.

The Company reiterates its 2019 guidance for MTV.

|                                    | <b>Full year 2019<br/>Guidance</b> | <b>Q1-2019 Actual</b> |
|------------------------------------|------------------------------------|-----------------------|
| Cu production (tonnes)             | 8,250 - 8,750                      | 1,793                 |
| Cu production (millions of pounds) | 18.2 - 19.3                        | 4.0                   |
| Cash cost per pound produced       | \$2.20 - \$2.50                    | \$2.27                |
| Capital expenditures (\$ millions) | \$25 - \$30                        | \$2.3                 |

#### *Copper Production*

Copper production was in line with expectations and measured well against guidance. Copper production for 2019 is not linear and is expected to accelerate in the second half of 2019 with the implementation of the Salt Leach and further mining of the expanded Don Gabriel open pit operations.

#### *Cash Cost per Pound Produced*

A non-IFRS measure, this metric was at the low end of the 2019 guidance range. As copper production is expected to increase quarter-over-quarter, this unit cost is expected to reduce accordingly.

#### *Capital Expenditures*

The capital expenditures for the first quarter are in line with expectations and represent development costs, capitalized stripping costs and purchases of equipment. As the implementation of the Salt Leach is expected to be completed during the third quarter of 2019, the capital expenditure program will accelerate and continue into the second half of the year when the Papomono development and expansion is scheduled. As previously communicated, securing long-term growth capital will be necessary for the Papomono development and expansion.

On February 11, 2019, the Board of Directors of the Company formed a Special Committee of the Board comprised solely of the Company's four Independent Directors chaired by Terry Lyons, the current Chairman of the Board. The Special Committee is reviewing and evaluating potential measures to address the Company's market valuation. This review will be comprehensive and will look at all measures to maximize shareholder value. The Special Committee has engaged financial and legal advisors to assist in its evaluation.

## CORPORATE STRUCTURE

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The consolidated accounts of the Company now include (i) SRHI's three wholly-owned subsidiaries; Sprott Resource Corp. ("**SRC**"), Adriana Mining Ltd. ("**ADM**"), and Sprott Resource Coal Holding Corp. ("**SRCHC**"); (ii) SRC's wholly-owned subsidiary, SRH Chile SpA ("**SRH Chile**"); (iii) MTV, which owns the Chilean copper producing mine; (iv) Beretta, a Toronto, Canada based vertically integrated food business focused on natural and organic protein-based food production and retail; and (v) the Company's equity incentive plan vehicle, the Trust (defined below).

The subsidiaries of SRHI are listed below. Each of the entities has a December 31 year end.

| <b>Entity</b>  | <b>Location</b> | <b>Proportion of Ownership Interest</b> | <b>Non-Controlling Interest</b> |
|--|-----------------|---|---------------------------------|
| SRC  | Canada          | 100%                                    | —                               |
| ADM  | Canada          | 100%                                    | —                               |
| SRCHC  | Canada          | 100%                                    | —                               |
| Beretta  | Canada          | 49.98%                                  | 50.02%                          |
| 2014 Employee Profit Sharing Plan (the " <b>Trust</b> ") | Canada          | —                                       | —                               |
| SRH Chile  | Chile           | 100%                                    | —                               |
| MTV  | Chile           | 70%                                     | 30%                             |

The Company is deemed to control the Trust which provides the Company with its equity incentive plan. The Company is also deemed to control Beretta as the remaining shareholder base of Beretta is widely held.

The Company holds a 49.98% interest in Beretta. Effective the Transition Date, Beretta is referred to as an asset held for sale and/or discontinued operations throughout this MD&A.

## OPERATIONAL UPDATE

### Three Months Ended March 31, 2019 and Two Months Ended March 31, 2018

The Company consolidated the accounts of MTV beginning on the Transition Date. Accordingly, in some cases, certain financial and operating information only include the results for the months of February and March 2018.

|   | Three months ended<br>Mar. 31, 2019 | Two months ended<br>Mar. 31, 2018 |
|---|-------------------------------------|-----------------------------------|
| Tonnes mined - underground operations                         | 34,429                              | 52,040                            |
| Tonnes mined - open pit operations                            | 229,563                             | 38,320                            |
| <b>Total ore mined (tonnes)</b>                               | <b>263,992</b>                      | <b>90,360</b>                     |
| <b>Waste mined - open pit operations (tonnes)</b>             | <b>1,499,129</b>                    | <b>89,600</b>                     |
| MTV mine processed ore (tonnes)                               | 249,767                             | 93,580                            |
| Third-party processed ore (tonnes)                            | 38,324                              | 37,370                            |
| ENAMI tolling processed ore (tonnes)                          | 23,056                              | 7,950                             |
| <b>Total processed ore (tonnes)</b>                           | <b>311,147</b>                      | <b>138,900</b>                    |
| Metallurgical recovery - underground material (%)             | 80.9%                               | 77.3%                             |
| Metallurgical recovery - open pit material (%)                | 82.1%                               | 80.0%                             |
| Underground average ore grade (Cu%)                           | 1.11%                               | 1.10%                             |
| Open pit average ore grade (Cu%)                              | 0.54%                               | 0.65%                             |
| Copper cathode production (tonnes)                            | 1,793                               | 922                               |
| Copper cathode sales (tonnes)                                 | 1,302                               | 827                               |
| Toll processed and copper cathodes returned to ENAMI (tonnes) | 319                                 | 152                               |

Mine production has increased steadily during the quarter as the mining contractor Vecchiola S.A. ramped up operations. The Company continues to find additional ore above cut off grade on the margins of the Don Gabriel ore body. The incremental ore mined provided additional material to the crusher which had excess capacity and aided in the increased production for the quarter. However, as this was lower-grade ore, the processed ore reduced the average grade experienced at the open-pit operations. Total ore and waste tonnes mined increased quarter-over-quarter since the new contractor began operating (1,763 thousand tonnes in the three months ended March 31, 2019 compared to 1,051 thousand tonnes in the three months ended December 31, 2018). As a result of the higher mining rate, tonnes crushed for the three months ended March 31, 2019 continue to average over 100 thousand tonnes per month and waste mined average around 500 thousand tonnes per month. This level of production is expected to continue throughout the year to match ore mined from various sources on the property.

|                                      | Three months ended |                |               |               |
|--------------------------------------|--------------------|----------------|---------------|---------------|
|                                      | June 30, 2018      | Sept. 30, 2018 | Dec. 31, 2018 | Mar. 31, 2019 |
| Total ore mined (tonnes)             | 157,763            | 253,783        | 234,626       | 263,992       |
| Waste mined - open pit mine (tonnes) | 238,966            | 551,930        | 816,020       | 1,499,129     |
| Copper cathode production (tonnes)   | 1,401              | 1,462          | 1,596         | 1,793         |

## LIQUIDITY AND CAPITAL RESOURCES

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### *Cash*

At March 31, 2019, the Company held cash and cash equivalents of \$10.2 million. Cash and cash equivalents are primarily comprised of cash in deposit accounts held with reputable financial institutions and are invested in highly liquid short-term investments with maturities of three months or less, in accordance with the Company's cash investment policy. The funds are not exposed to liquidity risk and there are no restrictions on the ability of the Company to use these funds to meet its obligations.

Cash and cash equivalents decreased by \$3.7 million in the three months ended March 31, 2019 primarily as a result of cash and cash equivalents used in operating activities of \$4.5 million, capital expenditures of \$2.3 million, partially offset by the receipt of \$4.2 million from a portfolio investment.

### *Working Capital*

At March 31, 2019, the Company had working capital of \$16.0 million. Included in working capital is cash of \$10.2 million, inventories of \$24.7 million and the publicly traded portfolio of investments of \$16.9 million. Liabilities included in working capital include accounts payable and accrued liabilities of \$22.6 million, deferred revenue of \$1.7 million and the current portion of MTV's loans and borrowings of \$15.3 million.

The Company's intent is to continue its expansion of mine operations and processing capacity at MTV which will require additional capital, the sourcing of which is expected to be in the form of long-term debt. With this anticipated long-term debt capital, it is expected that the current portion of loans and borrowings of \$15.3 million will be converted to long-term debt improving the Company's working capital. With the estimated future cash flows from expanded mine operations and existing and projected improvements in working capital, the Company will have the adequate ability to service its ongoing obligations and cover anticipated development, exploration and corporate costs associated with its existing operations for the next 12 months. The long-term debt for MTV is expected to be secured before the end of the second quarter of 2019.

Commodity price variability will impact the Company as it undertakes to expand the mining operations at Papomono and Don Gabriel, implement Salt-Leaching and increase throughput of the mine from its current sub-optimal utilization. The commodity price and exchange rate environment is volatile and accordingly will have an impact on the Company's cash flows.

### *Capital Resources*

The Company's primary sources of capital resources are comprised of cash and cash equivalents, divestment of its portfolio investments and its loans and borrowings. In order to facilitate the management of its capital requirements, the Company prepares annual operating budgets that are approved by the Board of Directors. The Company continuously monitors its capital structure and, based on changes in operations and economic conditions, may adjust such structure by issuing new common shares or new debt as necessary. As noted above, the Company intends to expand mine operations that will require the Company to successfully obtain additional loans and borrowings. While the Company has been successful in securing financing to date, there are no guarantees that it will be able to secure such financing in the future on terms acceptable to the Company, if at all. In the event that additional loans and borrowings cannot be secured to expand mine operations at MTV, the Company may have to revise its planned operations and activities for the remainder of 2019 for MTV.

The Company continues to review its near-term operating plans and take steps to reduce costs and maximize cash flow from operations, while growing copper cathode production.

Certain loan agreements contain operating and financial covenants that could restrict the ability of MTV to, among other things, incur additional indebtedness needed to fund its operations, pay dividends or make other distributions, make investments, create liens, sell or transfer assets or enter into transactions with affiliates. In July 2018, the Company agreed to guarantee (replacing the previous majority shareholder) the line of credit provided to MTV from an investment fund in the amount of \$15 million on the same terms as the prior guarantor, which includes:

- All copper cathode stock, both in its finished state, as ore and any product still undergoing processing;
- The naming of investment fund as the beneficiary of insurance proceeds from any theft of copper cathodes;
- The naming of investment fund as the main beneficiary of risk for the transport of copper cathodes; and,
- First priority interest over certain assets including plant and machinery.

The guarantee together with the line of credit expire on June 24, 2019. There are no other restrictions or externally imposed capital requirements of the Company.

The Company entered into certain commitments as at March 31, 2019 to (i) purchase property, plant and equipment amounting to \$0.9 million and (ii) mining operating supplies amounting to \$8.1 million.

## OPERATING SEGMENTS

The Company has two reportable segments. MTV is the Company's principal operating business. Corporate includes the Canadian corporate office which holds portfolio investments in the mining and energy sectors as well as an asset held for sale that reflects a 49.98% interest in Beretta.

Significant information relating to reportable operating segments is summarized below:

|   | MTV        | Corporate | Total      |
|---|------------|-----------|------------|
| <b>As at March 31, 2019</b>             |            |           |            |
| Assets                                  | \$ 110,207 | \$ 31,837 | \$ 142,044 |
| Assets classified as held for sale      | —          | 15,746    | 15,746     |
| Total assets                            | \$ 110,207 | \$ 47,583 | \$ 157,790 |
| Liabilities                             | \$ 46,919  | \$ 825    | \$ 47,744  |
| Liabilities classified as held for sale | —          | 5,976     | 5,976      |
| Total liabilities                       | \$ 46,919  | \$ 6,801  | \$ 53,720  |
| <b>As at December 31, 2018</b>          |            |           |            |
| Assets                                  | \$ 103,007 | \$ 37,434 | \$ 140,441 |
| Assets classified as held for sale      | —          | 14,013    | 14,013     |
| Total assets                            | \$ 103,007 | \$ 51,447 | \$ 154,454 |
| Liabilities                             | \$ 43,100  | \$ 1,259  | \$ 44,359  |
| Liabilities classified as held for sale | —          | 2,964     | 2,964      |
| Total liabilities                       | \$ 43,100  | \$ 4,223  | \$ 47,323  |

| Three Months Ended March 31, 2019            | MTV               | Corporate         | Total             |
|--|-------------------|-------------------|-------------------|
| Revenue                                      | \$ 8,608          | \$ —              | \$ 8,608          |
| Cost of sales                                | (10,168)          | —                 | (10,168)          |
| <b>Gross loss</b>                            | <b>(1,560)</b>    | <b>—</b>          | <b>(1,560)</b>    |
| <b>Expenses</b>                              |                   |                   |                   |
| General and administrative expenses          | 623               | 1,109             | 1,732             |
| Unrealized gain on portfolio investments     | —                 | (1,662)           | (1,662)           |
| Finance expenses, net                        | 723               | —                 | 723               |
| Other loss, net                              | 172               | 97                | 269               |
| <b>Net loss from continuing operations</b>   | <b>(3,078)</b>    | <b>456</b>        | <b>(2,622)</b>    |
| <b>Net loss from discontinued operations</b> | <b>—</b>          | <b>(1,517)</b>    | <b>(1,517)</b>    |
| <b>Net loss for the period</b>               | <b>\$ (3,078)</b> | <b>\$ (1,061)</b> | <b>\$ (4,139)</b> |
| <br>   |                   |                   |                   |
| Three Months Ended March 31, 2018            | MTV <sup>1</sup>  | Corporate         | Total             |
| Revenue                                      | \$ 5,963          | \$ —              | \$ 5,963          |
| Cost of sales                                | (5,709)           | —                 | (5,709)           |
| <b>Gross profit</b>                          | <b>254</b>        | <b>—</b>          | <b>254</b>        |
| <b>Expenses</b>                              |                   |                   |                   |
| General and administrative expenses          | 442               | 1,231             | 1,673             |
| Unrealized loss on portfolio investments     | —                 | 6,392             | 6,392             |
| Finance expenses, net                        | 245               | —                 | 245               |
| Other income, net                            | (55)              | (30)              | (85)              |
| <b>Net loss from continuing operations</b>   | <b>(378)</b>      | <b>(7,593)</b>    | <b>(7,971)</b>    |
| <b>Net loss from discontinued operations</b> | <b>—</b>          | <b>(736)</b>      | <b>(736)</b>      |
| <b>Net loss for the period</b>               | <b>\$ (378)</b>   | <b>\$ (8,329)</b> | <b>\$ (8,707)</b> |

<sup>1</sup> MTV was deemed to be acquired on the Transition Date and as a result, the operations of MTV are for the two months ended March 31, 2018.

Effective the Transition Date, the Company reported Beretta as held for sale and consolidates MTV. Prior to the Transition Date, both Beretta and MTV were portfolio investments reported at FVTPL under Investment Entity Reporting.

Effective the Transition Date, Beretta was reclassified as held for sale and all assets and liabilities of Beretta are presented separately in the Consolidated Statements of Financial Position as current assets and current liabilities respectively.

For the three months ended March 31, 2019, 94% of the revenues (\$8.6 million) was from one customer based in Switzerland. For the period February 1, 2018 to March 31, 2018, 96% of the revenues (\$6.0 million) was from one customer based in Switzerland. As at March 31, 2019, there was \$nil (December 31, 2018: \$0.4 million) outstanding in trade and other receivables.

## FINANCIAL UPDATE

### Three Months Ended March 31, 2019

The Company reported as an Investment Entity for the month ended January 31, 2018. For the three months ended March 31, 2019 and two months ended March 31, 2018, the Company did not report as an Investment Entity and instead consolidated the accounts of MTV and Beretta which were both previously reported at fair value with changes in fair value reported in the Consolidated Statements of Operations and Comprehensive Loss as *Unrealized loss (gain) on portfolio investments*. Accordingly, in some cases, certain financial and operating information only include the results for the months of February and March 2018.

### Gross profit (loss)

| <i>(in thousands)</i>      | Three months ended |                | Two months ended |            |
|----------------------------|--------------------|----------------|------------------|------------|
|                            | Mar. 31, 2019      |                | Mar. 31, 2018    |            |
| Revenue                    | \$                 | 8,608          | \$               | 5,963      |
| Cost of sales              |                    | (10,168)       |                  | (5,709)    |
| <b>Gross profit (loss)</b> | <b>\$</b>          | <b>(1,560)</b> | <b>\$</b>        | <b>254</b> |

#### Revenue

During the three months ended March 31, 2019, the Company recognized revenues of \$8.6 million (two months ended March 31, 2018: \$6.0 million) which included revenue from the sale of 1,793 tonnes of copper cathodes for \$8.1 million (two months ended March 31, 2018: \$5.7 million) and revenues from tolling services of \$0.5 million (two months ended March 31, 2018: \$0.3 million). Revenues were based on an average realized copper price of \$2.81 per pound (two months ended March 31, 2018: \$3.14).

#### Cost of sales

Cost of sales represent direct mining and plant costs (which include operating, non-capitalized waste stripping costs, maintenance and repair costs, mine site general and administrative costs, operating supplies and external services), employee compensation and benefits, depreciation and transportation costs. Cost of sales include elevated input costs for diesel, reagents and electricity which increased in the three months ended March 31, 2019 compared to the two months ended March 31, 2018. Cost of sales for the three months ended March 31, 2019 also included an increase in depreciation compared to the two months ended March 31, 2018.

### General and administrative expenses

|  | Three months ended |                 |
|--|--------------------|-----------------|
|  | Mar. 31, 2019      | Mar. 31, 2018   |
| <b>General and administrative expenses</b> | <b>\$ 1,732</b>    | <b>\$ 1,673</b> |

General and administrative expenses ("**G&A**") include salaries and contracted services, management fees, public company reporting costs and other office expenses.

The Company's G&A increased for the three months ended March 31, 2019 compared with the three months ended March 31, 2018 as a result of the inclusion of MTV's results effective the Transition Date. Previous to the Transition Date and for the three months ended March 31, 2018, certain components of G&A were solely those related to the Corporate Segment. See the section *Operating Segments* elsewhere in this MD&A.

## Unrealized loss (gain) on portfolio investments

|  | Three months ended |                 |
|--|--------------------|-----------------|
|  | Mar. 31, 2019      | Mar. 31, 2018   |
| <b>Unrealized loss (gain) on portfolio investments</b> | <b>\$ (1,662)</b>  | <b>\$ 6,392</b> |

There were no dispositions of portfolio investments during the three months ended March 31, 2019 and March 31, 2018.

For the three months ended March 31, 2019, SRHI's portfolio investment return increased by \$1.7 million, comprised solely of unrealized gains on portfolio investments. The change in unrealized gain on portfolio investments is predominantly due to the increase in value of the Company's public investment in Corsa Coal. For the three months ended March 31, 2018, SRHI's portfolio investment return decreased by \$6.4 million, represented primarily by unrealized losses on the Company's public investments in Corsa Coal and InPlay Oil.

## Finance expenses, net

|                              | Three months ended |               |
|------------------------------|--------------------|---------------|
|                              | Mar. 31, 2019      | Mar. 31, 2018 |
| <b>Finance expenses, net</b> | <b>\$ 723</b>      | <b>\$ 245</b> |

Finance expenses, net, primarily consists of interest on loans and the interest accretion on the decommissioning liability.

## PORTFOLIO INVESTMENTS

The Company reported as an Investment Entity for the month ended January 31, 2018. For the two months ended March 31, 2018, the Company did not report as an Investment Entity and instead consolidated the accounts of MTV and Beretta which were both previously reported at fair value with changes in fair value reported in the Consolidated Statements of Operations and Comprehensive Loss as *Unrealized loss (gain) on portfolio investments*.

### Closing portfolio investments

| (in thousands)         | Sector                         | Public/Private | As at            |                  |
|------------------------|--------------------------------|----------------|------------------|------------------|
|                        |                                |                | Mar. 31, 2019    | Dec. 31, 2018    |
| <b>Tactical Assets</b> |                                |                |                  |                  |
| Corsa Coal             | Mining                         | Public         | \$ 10,333        | \$ 8,693         |
| InPlay Oil             | Energy production and services | Public         | 5,364            | 5,098            |
| Virginia Energy        | Mining                         | Public         | 1,166            | 1,108            |
| Lac Otelnuik           | Mining                         | Private        | 4,682            | 4,586            |
|                        |                                |                | <b>\$ 21,545</b> | <b>\$ 19,485</b> |

InPlay Oil trades on the Toronto Stock Exchange ("**TSX**") and Corsa Coal and Virginia Energy trade on the TSX Venture Exchange. Given their public company status, significant amounts of information on each of these public portfolio investments is available as a result of their respective required continuous disclosure obligations. Readers are encouraged to obtain this information in order to best assess the financial position, results of operations, future prospects and risks associated with each of these portfolio investments of the Company. Additional information relating to these portfolio investments is available through their respective SEDAR filings and websites but such additional information is not incorporated by reference herein.

## SUMMARY OF QUARTERLY RESULTS

The following table contains selected quarterly financial information derived from the Company's financial statements and should be read in conjunction with the consolidated condensed quarterly financial statements reported under IFRS applicable to interim financial reporting.

| <i>(in thousands, except per share amounts)</i>                        | 2019       | 2018        |            |            |            | 2017    |            |             |
|--|------------|-------------|------------|------------|------------|---------|------------|-------------|
|  | Mar        | Dec         | Sept       | Jun        | Mar        | Dec     | Sept       | Jun         |
| Revenue  | \$ 8,608   | \$ 10,888   | \$ 6,039   | \$ 9,810   | \$ 5,963   | n/a     | n/a        | n/a         |
| Gross profit (loss)  | \$ (1,560) | \$ (438)    | \$ (1,449) | \$ 4       | \$ 254     | n/a     | n/a        | n/a         |
| Gain (loss) on portfolio investments                                   | \$ 1,662   | \$ (12,631) | \$ 2,597   | \$ (6,177) | \$ (6,392) | 9,694   | \$ (6,413) | \$ (16,150) |
| Net income (loss) from continuing operations                           | \$ (2,622) | \$ (13,631) | \$ (1,149) | \$ (6,965) | \$ (7,971) | 8,443   | \$ (8,424) | \$ (17,319) |
| Net income (loss)  | \$ (4,139) | \$ (14,148) | \$ (1,645) | \$ (8,152) | \$ (8,707) | 8,443   | \$ (8,424) | \$ (17,319) |
| Other comprehensive income (loss)                                      | \$ 1,029   | \$ (2,935)  | \$ 1,098   | \$ (1,324) | \$ (2,069) | (456)   | \$ 4,343   | \$ 2,673    |
| Basic and diluted earnings (loss) per share from continuing operations | \$ (0.08)  | \$ (0.40)   | \$ (0.03)  | \$ (0.21)  | \$ (0.23)  | \$ 0.25 | \$ (0.27)  | \$ (0.57)   |
| Basic and diluted earnings (loss) per share from net income (loss)     | \$ (0.12)  | \$ (0.43)   | \$ (0.05)  | \$ (0.24)  | \$ (0.26)  | \$ 0.25 | \$ (0.27)  | \$ (0.57)   |

The Company is not impacted materially by seasonality.

## FINANCING ACTIVITIES BY THE COMPANY

It has been the Company's policy to preserve a financially strong company that has the capital available to support the growth of existing businesses and make new investments. In certain circumstances, the Company will provide loans or guarantees to its operating businesses in which it has significant ownership to further their respective business plans.

## BUSINESS COMBINATIONS

### a. MTV Deemed Acquisition

Effective the Transition Date, MTV was deemed to be acquired by the Company and was treated as a business combination in accordance with IFRS 3, *Business Combinations*. As such, the Company accounted for MTV in accordance with this standard using the acquisition method with SRHI as the acquirer.

### b. Beretta Deemed Acquisition

Effective the Transition Date, Beretta was accounted for as a business acquisition in accordance with IFRS 3, *Business Combinations*. The assets and liabilities of Beretta acquired by the Company are presented as assets and liabilities held for sale and subsequent results of operations as discontinued operations.

## EQUITY DATA

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### Authorized capital:

Common shares, no par value, unlimited shares.

### Issued and outstanding:

The Company had 34,082,992 common shares issued and outstanding as at March 31, 2019 and on the date hereof.

### Outstanding warrants:

The Company had 201,138,560 common shares issued and outstanding as at March 31, 2019 and on the date hereof. All common share purchase warrants have an exchange ratio of 20 warrants for 1 common share and expire on February 9, 2022.

### Outstanding stock options:

The number of stock options outstanding as at March 31, 2019 was 175 thousand (December 31, 2018: 175 thousand) at a weighted average exercise price of CAD\$3.74 (December 31, 2018: CAD\$3.74).

The following table summarizes the stock options outstanding as at March 31, 2019:

| Number of options | Number of exercisable options | Exercise price (per unit), CAD | Weighted average remaining contractual life (years) | Expiry date       |
|-------------------|-------------------------------|--------------------------------|---|-------------------|
| 25,000            | 25,000                        | \$ 3.40                        | 0.12  | May 12, 2019      |
| 150,000           | 150,000                       | \$ 3.80                        | 1.64  | November 17, 2020 |
| <b>175,000</b>    | <b>175,000</b>                |                                | <b>1.42</b>   |                   |

## COMMITMENTS

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### SRHI Management Services Agreement

Effective February 1, 2018, the management service agreement between SRHI and SCLP entered into on February 9, 2017 was cancelled ("**Cancelled MSA**") and a new management service agreement was entered into effective February 1, 2018 between SRHI and SCLP (the "**MSA**"). The terms of the MSA are substantially the same as the Cancelled MSA with further detail of the MSA provided in the *Management Fee* section located elsewhere in this MD&A.

Contractual obligations of the Company as at March 31, 2019 are as follows:

|  | 1 year           | 1 - 3 years     | More than 3 years | Total         |
|--|------------------|-----------------|-------------------|---------------|
| Accounts payable and accrued liabilities | \$ 22,571        | \$ —            | \$ —              | 22,571        |
| Line of credit                           | 14,276           | —               | —                 | 14,276        |
| Leases                                   | 1,072            | 1,334           | —                 | 2,406         |
| Other non-current liabilities            | —                | 2,035           | —                 | 2,035         |
| Reclamation and other closure provisions | —                | —               | 5,491             | 5,491         |
| <b>As at March 31, 2019</b>              | <b>\$ 37,919</b> | <b>\$ 3,369</b> | <b>\$ 5,491</b>   | <b>46,779</b> |

The Company entered into certain commitments as at March 31, 2019 to (i) purchase property, plant and equipment amounting to \$0.9 million and (ii) mining operating supplies amounting to \$8.1 million.

## TRANSACTIONS WITH RELATED PARTIES

The Company entered into the following transactions with related parties during the three months ended March 31, 2019.

### (i) Management Fees

Management fees and employment compensation pursuant to the Management Services Agreement for the three months ended March 31, 2019 were \$0.6 million (three months ended March 31, 2018: \$0.6 million). The employment compensation portion was paid directly to employees and consultants of SRHI provided by SCLP and the remainder was paid and payable to SCLP, an entity with directors and officers in common. As at March 31, 2019, there was \$0.5 million (December 31, 2018: \$0.9 million) payable to SCLP for management fees calculated pursuant to the MSA.

### (ii) Key Management Compensation

Compensation for services paid or payable to executive officers and independent directors of the Company is shown below:

|   | Three months ended |               |
|---|--------------------|---------------|
|   | Mar. 31, 2019      | Mar. 31, 2018 |
| Compensation paid by and on behalf of SRHI for executive management services provided to the Company (including stock-based compensation) | \$ 123             | \$ 245        |
| Directors fees and stock-based compensation   | 116                | 113           |
|   | <b>\$ 239</b>      | <b>\$ 358</b> |

### (iii) Mine Contracting Services

MTV utilizes contractors for several mining services.

Inversiones Genova S.A.

For the three months ended March 31, 2019, \$0.5 million (two months ended March 31, 2018: \$0.7 million) was paid to Inversiones Genova S.A. for services provided to the Company, which included \$0.1 million (two months ended March 31, 2018: \$nil) for ore purchases. As at March 31, 2019, a balance of \$0.5 million (December 31, 2018: \$0.2 million) payable to Inversiones Genova S.A. remained outstanding. Inversiones Genova S.A. is affiliated with the minority shareholder of MTV.

Vecchiola S.A.

For the three months ended March 31, 2019, \$2.5 million was paid to Vecchiola S.A. (two months ended March 31, 2018: \$nil), the new mining contractor. As at March 31, 2019, a balance of \$3.1 million (December 31, 2018: \$0.9 million) payable to Vecchiola S.A. remained outstanding. Vecchiola S.A. is affiliated with the minority shareholder of MTV.

### (iii) MTV Management Loan

On November 12, 2018, certain senior managers of MTV entered into a loan agreement with MTV whereby a loan facility of \$0.6 million was granted to MTV. The unsecured loan has an interest rate of 12% per annum payable on the outstanding principal and repayment of interest and principal is due May 12, 2019.

On January 9, 2019, certain senior managers of MTV entered into a loan agreement with MTV whereby a loan facility of \$0.4 million was granted to MTV. The unsecured loan has a minimum interest rate of 12% per annum payable on the outstanding principal and repayment of interest and principal is due November 30, 2019.

As at March 31, 2019, \$1.0 million of principal and interest was outstanding (December 31, 2018: \$0.6 million).

## NON-IFRS PERFORMANCE MEASURES

This document includes certain non-IFRS performance measures that do not have a standardized meaning prescribed by IFRS. These measures may differ from those used by, and may not be comparable to such measures as reported by, other issuers. The Company believes that these measures are commonly used by certain investors, in conjunction with conventional IFRS measures, to enhance their understanding of the Company's performance. These measures have been derived from the Financial Statements and applied on a consistent basis. The following tables below provide a reconciliation of these non-IFRS measures to the most directly comparable IFRS measure.

The following non-IFRS performance measures are for the three months ended March 31, 2019, with comparative information, where appropriate. In some cases, information is provided for the two months ended March 31, 2018 reflecting the information of MTV since its deemed acquisition on the Transition Date.

### C1 Cash costs per pound produced

C1 Cash costs of production include all costs absorbed into inventory less non-cash items such as depreciation and non-site charges such as trucking charges capitalized to inventory. Site cash costs per pound produced are calculated by dividing the aggregate of the applicable costs by copper pounds produced. These measures are calculated on a consistent basis for the periods presented.

|  | <b>Three months ended</b> | <b>Two months ended</b> |
|--|---------------------------|-------------------------|
|  | <b>Mar. 31, 2019</b>      | <b>Mar. 31, 2018</b>    |
| Cost of Sales                                | \$ 10,168                 | \$ 5,709                |
| Depreciation                                 | (1,602)                   | (278)                   |
| Net change in inventory                      | 1,048                     | (330)                   |
| Transportation costs                         | (647)                     | (165)                   |
| <b>C1 Cash costs of production</b>           | <b>8,967</b>              | <b>4,936</b>            |
| Pounds of copper produced (thousands)        | 3,953                     | 2,032                   |
| Cash cost of copper produced (USD per pound) | <b>\$ 2.27</b>            | <b>\$ 2.43</b>          |

### Realized copper price

Realized copper price is calculated as total revenue from sale of copper cathodes divided by pounds of copper cathodes sold.

|   | <b>Three months ended</b> | <b>Two months ended</b> |
|---|---------------------------|-------------------------|
|   | <b>Mar. 31, 2019</b>      | <b>Mar. 31, 2018</b>    |
| Average realized copper price for the period (\$ per pound) | <b>\$ 2.81</b>            | <b>\$ 3.14</b>          |

### Working Capital

Working capital is determined based on current assets and current liabilities as reported in the Financial Statements. The Company uses working capital as a measure of the Company's short-term financial health and operating efficiency. The following table provides a calculation of working capital based on amounts presented in the Financial Statements as at March 31, 2019 and December 31, 2018.

|   | As at            |                  |
|---|------------------|------------------|
|   | Mar. 31, 2019    | Dec. 31, 2018    |
| Cash and cash equivalents                                   | \$ 10,225        | \$ 13,500        |
| Trade and other receivables                                 | 3,123            | 7,073            |
| Inventories   | 24,716           | 20,571           |
| Other current assets  | 696              | 729              |
| Portfolio investments                                       | 16,863           | 14,899           |
| <b>Current assets before assets held for sale</b>           | <b>55,623</b>    | <b>56,772</b>    |
| <b>Current liabilities before liabilities held for sale</b> | <b>39,582</b>    | <b>37,293</b>    |
| <b>Working capital</b>                                      | <b>\$ 16,041</b> | <b>\$ 19,479</b> |

### EBITDA and Adjusted EBITDA

EBITDA represents earnings before interest, income taxes and depreciation. Adjusted EBITDA includes further adjustments for non-recurring items and items not indicative to the operating performance of the Company. The Company believes adjusted EBITDA is a more appropriate supplemental measure of debt service capacity and performance of its operations. Adjusted EBITDA is calculated by removing the gain or loss on portfolio investments.

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | Mar. 31, 2019      | Mar. 31, 2018     |
| <b>Net loss from continuing operations</b>        | \$ (2,622)         | \$ (7,971)        |
| Add:  |                    |                   |
| Finance expense                                   | 723                | 261               |
| Depreciation                                      | 1,602              | 278               |
| <b>EBITDA from continuing operations</b>          | <b>(297)</b>       | <b>(7,432)</b>    |
| Unrealized loss (gain) on portfolio investments   | (1,662)            | 6,392             |
| <b>Adjusted EBITDA from continuing operations</b> | <b>\$ (1,959)</b>  | <b>\$ (1,040)</b> |

### MANAGEMENT FEE

#### January 1, 2016 to February 8, 2017

The management services agreement in place during this period may be accessed at [www.sedar.com](http://www.sedar.com).

The calculation of management fees payable to SCLP is determined in respect of each fiscal quarter - 0.5% of the quarterly net asset value ("**Quarterly NAV**") of SRC (2% per annum) where Quarterly NAV of SRC means, the average of the NAV of SRC as at the end of such fiscal quarter and the NAV of SRC as at the end of the immediately preceding fiscal quarter. NAV of SRC, means, in respect of a particular date, SRC's total assets less its total liabilities less its non-controlling interest, all as at such date as set forth in SRC's consolidated financial statements prepared as at such date.

### February 9, 2017 to January 31, 2018

Effective February 9, 2017, the Cancelled MSA was entered into effective February 9, 2017 between SRHI and SCLP and replaced by the MSA effective February 1, 2018.

### Effective February 1, 2018

Effective February 1, 2018, the MSA was entered into between SRHI and SCLP replacing the Cancelled MSA. The MSA was amended to reflect the change in financial reporting of SRHI as a result of its completed transition to a diversified holding company. All terms of the MSA are consistent with the Cancelled MSA with certain terminology updated to continue the calculation of the management fees payable to SCLP to be based on the fair value of the Company's net assets.

Under the MSA, SCLP manages or, subject to certain restrictions, engage others to manage, all of the undertaking, affairs and assets of SRHI and provides all necessary or advisable administrative services and facilities.

In consideration for the management and administrative services provided by SCLP to SRHI under the MSA, SRHI will pay to SCLP, in respect of each fiscal quarter, a management services fee equal to 0.5% of the Quarterly NAV of SRHI (as defined in the MSA) for such fiscal quarter, less the total remuneration paid directly by SRHI to all persons nominated by SCLP as employees, officers or directors of SRHI who provide investment management services to SRHI, but excluding any expenses recorded as a result of the granting of stock options under SRHI's stock option plan for such fiscal quarter (the "**Management Services Fee**"). To the extent the Quarterly NAV of SRHI for a fiscal quarter is in excess of CAD\$1 billion, the Management Services Fee payable in respect of such excess amount will be reduced to 0.375%.

If and to the extent that SCLP is requested in writing by the directors of SRHI to render services to SRHI other than those required to be rendered pursuant to the MSA, such additional services and activities will be compensated for separately and will be on such terms that are generally no less favourable to SRHI than those available from arm's length parties (within the meaning of the Tax Act) for comparable services. In addition to the Management Services Fee payable to SCLP pursuant to the MSA, SRHI will be responsible for paying all fees and expenses incurred in connection with the operation and administration of its business.

The Adjusted Annual Operating Expenses (as defined in the MSA) shall not exceed 3% of the Annual NAV of SRHI (as defined in the MSA) in respect of fiscal years commencing with SRHI's fiscal year ended December 31, 2018 and thereafter (the "**Maximum Adjusted Annual Operating Expenses**"). Where such Adjusted Annual Operating Expenses exceed the Maximum Adjusted Annual Operating Expenses (unless otherwise consented to by the Board), the Management Services Fee payable by SRHI to SCLP in respect of the last quarterly payment to be made in respect of such fiscal year shall be reduced to ensure the Adjusted Annual Operating Expenses are equal (or, in any case, do not exceed) the applicable Maximum Adjusted Annual Operating Expenses. For the period from January 1, 2019 to March 31, 2019, the Company's annualized Adjusted Annual Operating expense was greater than 3%.

SCLP shall, and shall ensure that its nominees shall, exercise the powers granted and discharge its, and their, duties under the MSA honestly, in good faith and in the best interests of SRHI and, in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent manager, or Person, would exercise in comparable circumstances.

The MSA will continue in full force and effect until it is terminated by either SRHI or SCLP giving at least one year prior written notice (or such shorter period as the parties may mutually agree upon) to the other party of such termination. If the MSA is terminated by SRHI, other than for the reasons set out in the paragraph immediately below, SRHI shall pay to SCLP within 5 business days of such termination, a termination payment equal to 1% of the NAV of SRHI (as defined in the MSA).

SRHI may terminate the MSA at any time if SCLP breaches any of its material obligations under the MSA and such breach has not been cured within 30 days following notice thereof from SRHI. Notwithstanding the foregoing, the MSA will terminate immediately where a winding-up, liquidation, dissolution, bankruptcy, sale of substantially all assets, sale of business or insolvency proceeding has been commenced or is being contemplated by SCLP, and will be terminated upon the completion of any such proceeding by SRHI. In addition, in the event that a Person or group of Persons, acting jointly or in concert, acquires control over at least 50% of the voting securities of SRHI (a "**Change of Control**"), SCLP may elect, in its sole discretion, to terminate the MSA by giving SRHI written notice of such termination within 90 days after the Change of Control. In the event that SCLP terminates the MSA upon a Change of Control, SRHI will (a) call a meeting of its shareholders to approve the change of SRHI's name to remove any reference to "Sprott", and (b) pay to SCLP within five business days of such termination, a termination fee equal to 3% of the NAV of SRHI, plus (if and to the extent applicable) an amount equal to 20% of the amount by which the market capitalization of SRHI exceeds the NAV of SRHI, all determined as at the termination date. Any change of SCLP (other than by assignment to its successor or affiliate) will require SRHI's approval. SRHI may, in its sole discretion, terminate and replace SCLP where it deems it to be in the best interests of SRHI.

SRHI acknowledges and agrees under the MSA that SCLP, for and on behalf of Sprott, reserves all right, title and interest in or to the name or designation, or reference to "Sprott" in the name or designation of any of SRHI's affiliates or, if applicable, SRHI. Upon termination of the MSA, SRHI will forthwith upon written request of SCLP call a meeting of its shareholders to approve an amendment of its articles to change the name of SRHI or any of its affiliates to one which does not include the word "Sprott" or any words similar thereto, and to cause to be executed and delivered all instruments necessary to evidence such change of name.

For the purposes of calculating management fees for the three months ended March 31, 2019, the reported NAV at December 31, 2018 of CAD \$143.2 million was used together with the NAV calculated at March 31, 2019 of CAD\$139.2 million. Management fees are calculated quarterly based on the average NAV of the current quarter and the prior quarter.

The valuation of private companies is inherently difficult. The Company has the expertise to determine the fair value of its private investments yet acknowledges the value in sourcing outside expertise. As a result, the Company has adopted a valuation policy that includes engaging independent external valuers to perform an assessment of fair value of each material private investment on at least an annual basis unless (i) there is sufficient external evidence, such as a recent third-party transaction, that would provide meaningful and supportable evidence to conclude on fair value or (ii) it is both uneconomical to perform and the range of fair values for the investment would not result in a material difference from any value within the range.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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The Company's Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**") have designed or caused to be designed under management's supervision, disclosure controls and procedures that provide reasonable assurance that (i) material information relating to the Company is made known to management by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual and interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. In conducting this evaluation, management has considered, among other things, the corporate charter and policies of the Company, including the Company's disclosure policy.

The Company's CEO and CFO have also designed internal controls over financial reporting which are designed, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company has engaged an independent advisory and accounting firm to assist management in conducting the evaluation and suggest best practices when they are not being applied and also to test the key controls within the material financial cycles. This evaluation is done under the supervision of, and with the participation of the CEO and CFO.

The officers of the Company do not expect that the disclosure controls and procedures of internal controls over financial reporting will prevent all errors and fraud, based on their evaluation. The CEO and CFO have concluded that the Company's disclosure controls and procedures and internal controls over financial reporting are effectively designed for the three months ended March 31, 2019. There were no significant changes in the Company's internal controls over financial reporting that occurred during the three months ended March 31, 2019, that have materially affected, or are reasonably likely to have materially affected, the Company's internal controls over financial reporting. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

## **SCIENTIFIC AND TECHNICAL INFORMATION**

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Unless otherwise noted or indicated, scientific and technical content contained in this MD&A related to MTV is based on information prepared by Dr Antonio Luraschi, RM CMC, Manager of Metallurgic Development and Senior Financial Analyst, Wood, Mr Sergio Navarrete, RM CMC, Mining Engineer, Wood, Mr Alfonso Ovalle, RM CMC, Mining Engineer, Wood, Mr Michael G. Hester, FAusIMM, Vice President and Principal Mining Engineer, Independent Mining Consultants, Inc., Mr Enrique Quiroga, RM CMC, Mining Engineer, Q&Q Ltda, Mr Gabriel Vera, RM CMC, Metallurgical Process Consultant, GVMetallurgy, and Mr Sergio Alvarado, RM CMC, Consultant Geologist, General Manager and Partner, Geoinvestment Sergio Alvarado Casas E.I.R.L. all of whom are independent qualified persons as defined by NI 43-101. The Technical Report was filed by SRHI on SEDAR on December 14, 2018 at [www.sedar.com](http://www.sedar.com). Readers are encouraged to read the Technical Report in its entirety.

## RISK MANAGEMENT

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The Company thoroughly examines the various financial instruments and risks to which it is exposed, most of which are beyond the control of the Company, and assesses the impact and likelihood of those risks. These risks may include market risk, interest rate risk, foreign currency risk, commodity price risk, price risk, credit risk and liquidity risk. Where material, these risks are reviewed and monitored by experienced managers, advisors and consultants, by maintaining adequate liquidity, and by cost control initiatives.

The Company invests in securities of public and private companies. In some cases, the Company may be restricted by contract or by applicable securities laws from selling such securities for a period of time. The inability to sell such securities may impair the Company's ability to exit these portfolio investments when the Company considers it appropriate.

If necessary, the Company may seek financing for capital projects or general working capital purposes. Such financing, if required, will depend on a number of unpredictable factors, which are often beyond the control of the Company. These would include the realized price of the actual copper produced from the Company's operating mines, and expected capital expenditures.

For a discussion of additional risks applicable to the Company and its business and operations, including risks related to the Company's foreign operations, see "Risk Factors" in the Company's Annual Information Form for the year ended December 31, 2018 and dated March 6, 2019 (the "AIF").

## OFF-BALANCE SHEET ARRANGEMENTS

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As at March 31, 2019, the Company had no off-balance sheet arrangements.

## ADOPTION OF ACCOUNTING STANDARDS

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As at January 1, 2019, the Company adopted IFRS 16 *Leases*.

The Company has adopted IFRS 16 following the modified retrospective basis approach from January 1, 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The adjustments arising from the new leasing standard are therefore recognized in the opening balance sheet on January 1, 2019.

### *Adjustments recognized on adoption of IFRS 16*

On adoption of IFRS 16, the group recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the operating lease commitments on January 1, 2019 was between 3.5% and 3.8% depending on the length of the lease.

The following table reconciles the Company's operating lease obligation as at December 31, 2018 as previously disclosed in the Company's consolidated financial statements, to the new obligation recognized on adoption of IFRS 16 of January 1, 2019.

|  |           |              |
|--|-----------|--------------|
| Operating lease commitments disclosed as at December 31, 2018  | \$        | 723          |
| Add: Embedded leases   |           | 1,195        |
| Less: Discount   |           | (133)        |
| <hr/>  |           |              |
| Discounted operating lease commitments using the lessee's incremental borrowing rate as at January 1, 2019 | \$        | 1,785        |
| Add: finance lease liabilities recognized as at December 31, 2018  |           | 675          |
| <hr/>  |           |              |
| <b>Lease liability recognised as at January 1, 2019</b>  | <b>\$</b> | <b>2,460</b> |

|   |           |              |
|---|-----------|--------------|
| Lease liabilities included in current portion of loans and borrowings                 | \$        | 925          |
| Non-current lease liabilities included in non-current portion of loans and borrowings |           | 1,535        |
| <hr/>   |           |              |
| <b>Lease liability recognised as at January 1, 2019</b>                               | <b>\$</b> | <b>2,460</b> |

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognized right-of-use assets relate to the following types of assets:

|  | As at           |
|--|-----------------|
|  | Jan 1, 2019     |
| Machinery and equipment                                    | \$ 1,384        |
| Building and mining facilities                             | 401             |
| <hr/>  |                 |
| <b>Right-of-use asset recognized as at January 1, 2019</b> | <b>\$ 1,785</b> |

The impact of adopting the policy only impacted the MTV segment and had no material effect on earnings per share. The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

The Company has applied the following practical expedients permitted by IFRS 16:

- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

#### *The Company's leasing activities and how these are accounted*

Until the 2018 financial year, assets financed by leasing agreements that give rights approximating ownership (finance leases) are capitalized at fair value. The capital elements of future obligations under finance leases are included as liabilities in the Consolidated Statements of Financial Position and the interest element is charged to the Consolidated Statements of Operations and Comprehensive Loss. Annual payments under other lease arrangements, known as operating leases, are charged to the Consolidated Statements of Operations and Comprehensive Loss on a straight-line basis.

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less, and leases of low-value assets. For these leases, the Company recognizes the lease payments as an expense in net earnings on a straight-line basis over the term of the lease.

From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or

accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

## ADVISORY

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### Forward-Looking Information

Certain statements in this MD&A, and in particular the "Highlights", "Outlook" and "Liquidity and Capital Resources" sections, contain forward-looking information (collectively referred to herein as the "**Forward-Looking Statements**") within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify Forward-Looking Statements. In particular, but without limiting the foregoing, this MD&A contains Forward-Looking Statements pertaining to: (i) SRHI's portfolio investments are business expected to cash flow; (ii) SRHI's belief that its portfolio investments are non-controlling positions in commodities or companies that will provide positive returns; (iii) expectations regarding the review conducted by the Special Committee; (iv) expectations regarding the construction, costs, timing and benefits of the Salt Leach; (v) key corporate and growth initiatives; (vi) the Company's 2019 guidance for MTV, including copper production, cash cost per pound produced and capital expenditures; (vii) expectations regarding MTV production; (viii) expectations regarding the MTV mine expansion and processing capacity, including the anticipated expansion methods, costs, timing and the benefits derived from the expansion; (ix) expectations and requirements for additional capital, including the ability to secure long-term debt and offtake financing for MTV and the timing upon which such debt will be secured; (x) expectations regarding monetization of legacy assets; (xi) expectations detailed in the "Liquidity and Capital Resources" section, including that the conversion of the current portion of loans and borrowings into long-term debt improving the Company's working capital; estimated future cash flows and the sources thereof; that the Company will have the adequate ability to service its ongoing obligations and cover anticipated development, exploration and corporate costs associated with its existing operations for the next 12 months; capital requirements, including securing long-term debt for MTV before the end of the second quarter of 2019; the expected impact of commodity prices and exchange rates; and near-term operating plans; (xii) the economic and study parameters of MTV; (xiii) mineral resource and mineral reserve estimates; (xiv) the cost and timing of development of MTV; (xv) the proposed mine plan and mining methods; (xvi) dilution and extraction recoveries; (xvii) processing method and rates and production rates; (xviii) projected metallurgical recovery rates; (xix) additional infrastructure requirements or infrastructure modifications; (xx) capital, operating and sustaining cost estimates; (xxi) the projected life of mine and other expected attributes of MTV; (xxii) the NPV and IRR and payback period of capital; (xxiii) future metal prices; (xxiv) changes to MTV's configuration that may be requested as a result of stakeholder or government input; (xxv) government regulations and permitting timelines; (xxvi) estimates of reclamation obligations and expectations regarding future obligations for mine closure activities; (xxvii) environmental risks; (xxviii) future purchasing of mineralized material; (xxix) continued purchasing of mineralized material from a large number of small-scale third-party miners and toll milling mineralized material from ENAMI; (xxx) expectations regarding the copper market, including supply, demand, pricing and value drivers; (xxxi) expectations regarding imposed tariffs on economic growth; and (xxxii) general business and economic conditions.

Although SRHI believes that the Forward-Looking Statements are reasonable, they are not guarantees of future results, performance or achievements. A number of factors or assumptions have been used to develop the Forward-Looking Statements, including: (i) there being no significant disruptions affecting the development and operation of MTV; (ii) the availability of certain consumables and services and the prices for power and other key supplies being approximately consistent with assumptions in the Technical Studies; (iii) labour and materials costs being approximately consistent with assumptions in the Technical Studies; (iv) fixed operating costs being approximately consistent with assumptions in the Technical Studies; (v) permitting and arrangements with stakeholders being consistent with current expectations as outlined in the Technical Studies; (vi) certain tax rates, including the allocation of certain tax attributes, being applicable to MTV; (vii) the availability of financing for MTV's planned development activities; (viii) assumptions made in mineral resource and mineral reserve estimates and the financial analysis based on the mineral reserve estimate and in the case of the PEA, the mineral resource estimate, including (as applicable), but not limited to, geological

interpretation, grades, commodity price assumptions, extraction and mining recovery rates, hydrological and hydrogeological assumptions, capital and operating cost estimates; (ix) natural resource markets and the price of various natural resources, including copper, oil and coal, in the future; (x) the continued availability of quality management; (xi) the effects of regulation and tax laws of governmental agencies will not materially change; (xii) commodity prices variability; (xiii) critical accounting estimates; and (xiv) general marketing, political, business and economic conditions. Actual results, performance or achievements could vary materially from those expressed or implied by the Forward-Looking Statements should assumptions underlying the Forward-Looking Statements prove incorrect or should one or more risks or other factors materialize, including: (i) possible variations in grade or recovery rates; (ii) commodity price fluctuations and uncertainties, including for copper; (iii) delays in obtaining governmental approvals or financing; (iv) risks associated with the mining industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of estimates and projections relating to mineral reserves, production, costs and expenses; and labour, health, safety and environmental risks) and risks associated with the other portfolio companies' industries in general; (v) performance of the counterparty to the ENAMI Tolling Contract; (vi) risks associated with investments in emerging markets; (vii) general economic, market and business conditions; (viii) market volatility that would affect the ability to enter or exit investments; (ix) failure to secure financing in the future on terms acceptable to the Company, if at all; (x) commodity price fluctuations and uncertainties; (xi) those risks disclosed herein under the heading "Risk Management"; and (xii) those risks disclosed under the heading "Risk Factors" or incorporated by reference into SRHI's Annual Information Form dated March 6, 2019. The Forward-Looking Statements speak only as of the date hereof, unless otherwise specifically noted, and SRHI does not assume any obligation to publicly update any Forward-Looking Statements, whether as a result of new information, future events or otherwise, except as may be expressly required by applicable Canadian securities laws.

#### **Cautionary Note to United States Investors Concerning Estimates of measured, indicated and inferred mineral resources**

This MD&A may use the terms "measured", "indicated" and "inferred" mineral resources. United States investors are advised that while such terms are recognized and required by Canadian regulations, the United States Securities and Exchange Commission does not recognize them. "Inferred mineral resources" have a great amount of uncertainty as to their existence, and as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules, estimates of inferred mineral resources may not form the basis of feasibility or other economic studies. United States investors are cautioned not to assume that all or any part of measured or indicated mineral resources will ever be converted into mineral reserves. United States investors are also cautioned not to assume that all or any part of an inferred mineral resource exists or is economically or legally mineable.

#### **ADDITIONAL INFORMATION**

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Additional information related to the Company is available for viewing on SEDAR at [www.SEDAR.com](http://www.SEDAR.com) and on the Company's website at [www.sprottresource.com](http://www.sprottresource.com).